

Summary of Current System

	Pillar 1	Pillar 2	Pillar 3
Type:	♦ Defined-benefit		
Participation:	♦ Mandatory		
Management:	♦ Publicly-managed		
Financing:	♦ PAYGO		
Coverage:	♦ Employed workers, including members of collective farms, and contributing self-employed		
Eligibility:	♦ Age 60 (men) or age 55 (women) and fulfilled minimum contribution period		

Challenges Facing Pension System

- ☐ Chronic pension fund shortfalls
- ☐ Participation in informal economy
- ☐ Demographic shifts

Summary of Current Pension System

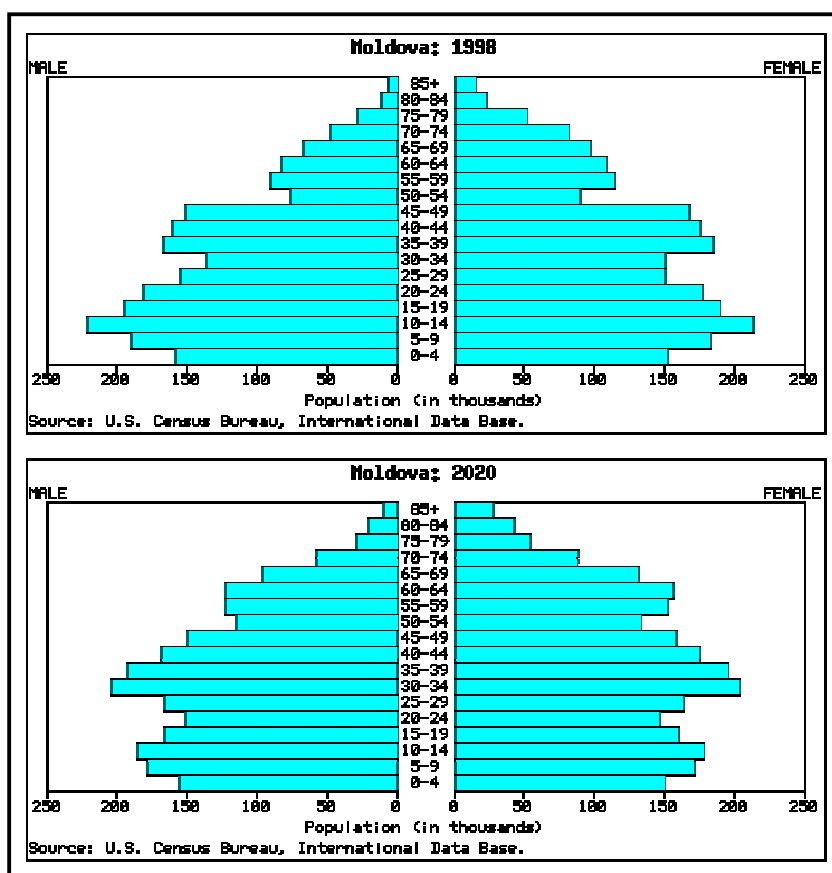
The mandatory social insurance system in Moldova generally covers employed workers, including members of collective farms and the contributing self-employed. This defined-benefit pension system is financed on a pay-as-you-go basis (PAYGO) through payroll tax and direct budgetary transfers. The Social Fund of the Republic of Moldova finances the pension system. The Social Fund is a revenue-collecting entity comprised of three funds: (1) Pension Fund, (2) Social Insurance Fund, and (3) Employment Fund.

The Pension Fund provides old-age pension, disability pension, survivorship benefits, social pensions, and also allowances to families with children under the age of 16. The Employment Fund provides assistance to unemployed workers, such as career counseling, job placement services and training. The Social Insurance Fund, however, administered by local trade unions, provides sickness and maternity, and temporary disability benefits.

Contributions to the general Social Fund are primarily made by employers who contribute 38 percent of their payroll (for industry and agriculture). Lower payroll contributions are made by state-supported organizations (30 percent of payroll) and charitable organizations (4.7 percent of payroll). Employees contribute one percent of their salary and self-

employed workers contribute 23 percent of their earnings to the Social Fund.

Employees gain access to pension benefits when the following conditions have been met: (1) they have reached retirement age (55 years for women, and 60 years for men), and (2) they have fulfilled the minimum contribution period (at least 20 years of employment for women and 25 years for men). These conditions are less stringent for individuals who have worked in hazardous or arduous work environments.



SELECTED INDICATORS		
Demographic	Year	
	1998	2020
Total Population (in thousands)	4,458	4,783
Life Expectancy at Birth (Years)	64.32	71.87
Total Fertility Rate (Child Born per Woman)	1.9	1.8
Age Dependency Ratio (percent)	22.9	28.6
	1980-2000	2000-2020
Average Annual Rate of Population Growth (percent)	0.6	0.3

Source: U.S. Bureau of the Census, International Data Base.

Economic	1996
GNP (PPP in billions) ¹	6.2
GNP Average Annual Growth Rate, 1995-1996 (percent) ¹	-10.0
GNP Per Capita (in PPP) ¹	1,440
Inflation Rate (percent) ²	23.5
Labor Force Participation Rate (percent) ³	49.3
Unemployment Rate (percent) ⁴	1.4

Source: ¹World Bank; ²IMF; ³International Labour Office; ⁴Central Intelligence Agency.

Pension	1997
System Dependency Ratio, 1996 (percent) ¹	50.2
Employee Contributions for Pensions (percent of earnings) ²	1.0
Employer Contributions for Pensions (percent of payroll) ²	38.0
Public Pension Expenditure as % of Government Expenditures, 1996 ³	18.7
Public Pension Expenditure as % of GDP, 1996	8.1

Source: ¹IMF; ²U.S. Social Security Administration; ³de Castello Branco (1998).

Individuals receive pension benefits that amount to 55 percent of their base wage plus one percent of wages for each year in excess of the contribution minimum. Pension benefits are adjusted periodically according to changes in the cost of living.

For individuals who do not qualify for pension benefits because of insufficient years of work, benefits have been established at between two-thirds and three-quarters of minimum wage. It is estimated that only about 25 percent of individuals receive only the minimum pension.

Challenges Facing Pension System

After gaining independence in 1991, Moldova experienced economic difficulties. These economic difficulties were in part due to adverse trade conditions, irregular supply of energy (i.e., oil and gas), and natural disasters. This resulted in a decrease in the country's gross national product and also contributed to the central government increasing budgetary deficit. The central government responded with efforts to curb inflation and reform the social security system in order to ease the deterioration of the economy.

The economic hardship experienced by Moldova substantially affected the financial situation of the Social Fund. The central government drew from the Social Fund to cover shortfalls in the general budget and by the end of 1996, budgetary arrears had reached about 10 percent of GDP. The central government delayed payments of pension benefits, resulting in pension arrears reaching about three percent of GDP in 1996.

Another factor affecting the Social Fund is the high level of activity within the informal economy. Moldova has a low share of wages to GDP due in part of the informal economy. In 1994, the share of wages to GDP was 39 percent and this percentage dropped to 33 percent in 1995.

Further, the increasing number of individuals eligible for pension benefits has strained the fund. The population has been steadily aging (the proportion of individuals aged 60+ was 13.6 percent in 1979 and increased to 15.8 percent in 1994). Another cause for the increase in pension beneficiaries was the number of individuals eligible for preferential pensions, where special categories of employees are allowed to retire before the normal retirement age. It is estimated that expenditures of preferential pensions amount to 25 percent of overall spending.

Pension Reform Efforts

Due to the country's poor economic performance since independence, the focus of the government has been to restore growth and stimulate exports. The World Bank approved a Structural Adjustment Credit and Structural Adjustment Loan to provide support for the government's economic reform program. One of the areas of interest in this credit and loan is reform of the pension system.

In October 1998, the Parliament of Moldova passed a pension reform package. The legislation includes reform of the public pension system. It is anticipated that these reform efforts will improve the public pension system financial problems. More specifically, the legislation increases the retirement age to 60 years for women and 65 years for men and also increases the minimum contribution period to 35 years in order to qualify for full pension benefits. In addition, it is expected that a voluntary private pension law will also pass later this year.

Pension Reform Efforts by Pillar

	Pillar 1	Pillar 2	Pillar 3
Papers issued on state of pension systems	✓		✓
Formulation of proposals	✓		✓
Development of draft legislation	✓		✓
Introduction of legislation by parliament	✓		✓
Review of legislation by parliament	✓		✓
Passage of legislation by parliament	✓		
Implementation of legislation			